SGI CANADA *annual report* / **2004**

Our Vision

As a Saskatchewan based insurance company we will set the industry standard for being highly valued by our customers.

Our Values

Integrity
Conducting ourselves with honesty, trust and fairness

Caring
Acting with empathy, courtesy and respect

Innovation
Implementing creative solutions to achieve our vision

105-04320/

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Letter of Transmittal

Regina, Saskatchewan

March, 2005

To Her Honour,
The Honourable Lynda Haverstock
Lieutenant Governor of the Province of Saskatchewan

Your Honour:

I have the honour to submit herewith the annual report of Saskatchewan Government Insurance for the year ended December 31, 2004, including the financial statements in the form required by the Treasury Board and in accordance with *The Saskatchewan Government Insurance Act*.

I have the Honour to be, Madam,

Your obedient Servant,

Maynard Sonntag

Honourable Maynard Sonntag
Minister Responsible for Saskatchewan Government Insurance

Chair's Letter

In 2004, our team of employees and brokers worked together to achieve one of the most successful years in the history of SGI CANADA.

My thanks to staff and brokers for their hard work and dedication throughout the previous year. SGI's program of responsible management and controlled growth is in the best interests of the Corporation and its shareholder, the residents of Saskatchewan.

I would also like to thank the Board of Directors for their direction and support, which have put the Corporation in a solid position for profitability now and in the years to come.

Nancy E. Hopkins
Chair

Vice Presidents & Senior Management

Vice Presidents

Cheryl Barber
Human Resources

Earl Cameron
Claims and Salvage

John Dobie
Canadian Operations

Randy Heise
Underwriting

Don Thompson
Finance and Administration

Dwain Wells
Systems

Sherry Wolf
Auto Fund

Senior Management

Doug Campbell
Assistant Vice President, Injury Claims & Rehabilitation

Anna Lapierre
Assistant Vice President, Licensing & Underwriting Services

Bob Lundy
Assistant Vice President, Claims Urban

Maureen MacCuish
Assistant Vice President, Communications

Penny McCune
Assistant Vice President, Rating & Strategic Planning

Bernadette McIntyre
Assistant Vice President, Driver & Vehicle Safety Services

Lyle Mosiondz
Assistant Vice President, Claims Rural & Support Services

Brian Munro
Assistant Vice President, Corporate Controller

Grace Parsons
Assistant Vice President, Commercial Lines

Don Phillips
Assistant Vice President, Legal

Lorne Whippler
Assistant Vice President, Personal Lines

Cara Low
Corporate Actuary

Andrea Malyon
Corporate Actuary

Betty Weigel
Government and Corporate Affairs

Board of Directors

W.J.A. (Bill) Heidt
Retired Insurance Professional, Kelowna, BC
Investment and Legislation Review Committee

Kendra Chesney
Information Technology Analyst, SGI
Regina, SK
Investment and Legislation Review Committee

Merin Coutts
Regional Sales Manager, Shaw Cable
Systems G.P., Saskatoon, SK
Audit and Finance Committee

Joan D. Bellegarde
Executive Director, File Hills Qu'Appelle
Tribal Council, Fort Qu'Appelle, SK
Investment and Legislation Review Committee

J. Walter Bardua (Vice Chair)
Retired Insurance Professional, Nanaimo, BC
Governance and Human Resources Committee

Joan F.D. Baldwin
Doctor, Regina, SK
Audit and Finance Committee

Robert Fenwick
Retired Insurance Professional, Morsmith, SK
Governance and Human Resources Committee

Nancy E. Hopkins (Chair)
Lawyer, McDougall Gauley
Saskatoon, SK
Audit and Finance Committee
Governance and Human Resources Committee
Investment and Legislation Review Committee

Dale Bloom
Corporate Secretary, Crown Investments
Corporation, Regina, SK

Arleen Hynd
Retired Chartered Accountant, Regina, SK
Audit and Finance Committee
Governance and Human Resources Committee

President's Message

Over time, SGI CANADA has developed into a strong company that values experience and vision.

Our expertise, coupled with a focus on future opportunities, continues our long-standing position as one of the country's leading insurance companies.

Our philosophy of careful and controlled growth is working. SGI CANADA had one of its best years on record in 2004, posting a consolidated profit of $42 million and a return on equity of 43%. As a result, SGI paid a dividend to the province of $27 million.

Our success in 2004 came from our commitment to disciplined underwriting guidelines and charging the appropriate premium for the appropriate risk. Overall, SGI CANADA posted an underwriting profit of $16 million for 2004. The absence of severe summer storms, coupled with very good investment earnings, also contributed to the exceptional year.

At the same time, SGI CANADA has continued to expand its presence beyond Saskatchewan's borders to other provinces. Each of our subsidiaries – SGI CANADA Insurance Services Ltd. (SCISL), the Insurance Company of Prince Edward Island (ICPEI) and Coachman Insurance Company – had successful years, posting a profit. Our out-of-province operations continue to spread our insurance risk, earn profits and just as important, create new jobs in Saskatchewan and the other provinces in which we operate. Although we will not always be profitable in all segments or markets each year, it will smooth out financial results over time and it is important that we continue to spread our risk.

SGI CANADA will continue to carefully and diligently manage its subsidiaries into 2005.

As always, customer service remained a top priority for SGI CANADA in 2004. SGI CANADA relies on a system of independent insurance brokers to bring our products to our customers. Through experience, expertise and exceptional customer service, our network of independent brokers continues to be crucial to our success, and we look forward to continued partnering opportunities in the future.

SGI CANADA also has a commitment to giving back to the community. In 2004, we sponsored events such as the Child Restraint Clinic program, The Arts for Youth program in Saskatoon, the SGI CANADA Charity Road Race and the final year of the hugely successful SGI CANADA Charity Curling Classic.

SGI CANADA, ICPEI and Coachman staff and brokers should be proud of their dedication and hard work over the past year, maintaining profitability at SGI CANADA while also giving back to the people of Saskatchewan.

In 2005, SGI CANADA will celebrate its 60th anniversary. In this milestone year and beyond we have two main challenges: continue to build on our successes in Saskatchewan; and continue to expand our out-of-province operations. Through our vision, experience and expertise, I am confident SGI CANADA will continue on its successful and profitable path in 2005.

Jan Schubert
President & CEO

2004 in Review

Looking back on the last year, SGI CANADA celebrated many achievements and posted a solid consolidated profit of $42 million in 2004.

While reinsurance markets remained firm throughout 2004, SGI CANADA continued to adhere to responsible underwriting guidelines to ensure rates accurately reflect risk.

SGI CANADA recorded its largest ever underwriting profit of $15.9 million in 2004. This profit follows on the heels of a modest underwriting profit in 2003 of $2.6 million.

Solid investment returns were realized for SGI CANADA in 2004. The increase can be attributed to realized gains on the sale of investments, which were $6.5 million higher in 2004.

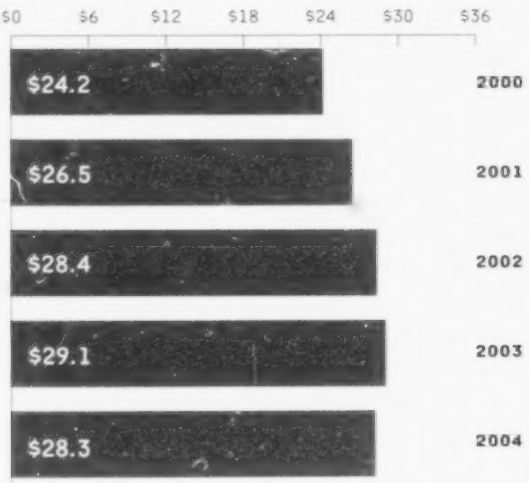
Underwriting Profit (Loss)

(millions $)

Also contributing to the Corporation's successful year was SGI CANADA's continued control over administration costs. In 2004, administrative expenses in relation to premium (administrative expense ratio) was 10.6%, a decline from the 12.1% in 2003.

In 2004, our dividend paid to CIC was $27.1 million and the sum of all dividends paid by SGI over time has totaled $240 million.

Administrative Expenses



(millions $)

Insurance Industry Overview

Following several years of poor financial performance, financial results in the industry improved noticeably in 2003. The trend continued in 2004 as the industry overall was profitable and experienced a rate of return of 23%.

Rate increases, the leveling off of claims costs and solid investment returns all worked to strengthen financial results for the industry in 2004. Rate increases have leveled off and it remains to be seen whether premium levels will remain constant.

Sustainable profitability and a more stable auto insurance market are crucial for the financial health of the entire industry in the years ahead.

Out-of-province operations

Out-of-province operations continue to be crucial to SGI CANADA as they spread risk, maintain and create jobs in Saskatchewan and increase profit for shareholders.

SGI has been solidly established in Saskatchewan for nearly 60 years, and can utilize its existing infrastructure to move into other markets without needing to also purchase support services in that region.

SGI CANADA has taken a careful and cautious approach to developing operations outside the province.

Operations outside of Saskatchewan began in 1993 when SGI CANADA Insurance Services Ltd. (SCISL) began offering property and casualty products in Manitoba. In 2001, SGI CANADA became the major Shareholder in the Insurance Company of Prince Edward Island (ICPEI) and it also purchased the Coachman Insurance Company in Ontario.

It's important to spread risk to protect Saskatchewan shareholders due to SGI CANADA's large market share in the province. Losses in one product or province can be made up through profits in other products and in other provinces. It's a basic business principle for insurance companies to lessen the impact of significant losses in one geographical area. However, spreading risks means we will not always be profitable in all segments every year.

SGI CANADA's out-of-province operations are resulting in an increased book of business, profitable results and new jobs.

In 2004, approximately 18% of SGI CANADA's consolidated premium revenue was from outside of Saskatchewan.

As well, technological gains continue to create efficiencies that impact all jobs. In order to create jobs in the province, expansion is essential. All three of SGI CANADA's out-of-province companies are creating jobs in Saskatchewan, as well as the markets in which they operate.

Out-of-province operations also benefit employees at SGI CANADA, as it allows them to add to their expertise in the insurance industry by gaining experience in other markets. In turn, having employees with a high level of knowledge and experience is beneficial to the Corporation.

Out of Province Premiums Written

SCISL Manitoba

SGI CANADA Insurance Services Ltd. (SCISL) has operated in Manitoba since 1993. In the past decade, SCISL has grown to become the 12th largest insurer in Manitoba.

In 2004, SCISL Manitoba wrote $11.0 million in premiums. SCISL Manitoba also increased its policy count by 2% and posted a profit of $1.1 million.

Insurance Company of Prince Edward Island

ICPEI posted a profit of $1.3 million in 2004.

The company wrote over $8.3 million worth of premiums in 2004, primarily coming from the auto business.

ICPEI will continue to focus on personal and small commercial business in 2005, while taking a cautious approach to growth.

Coachman Insurance Company

SGI CANADA has actively managed Coachman in the highly competitive insurance market in Ontario since 2001.

The Ontario auto market continues to be challenging. Some reforms are still required to improve the product and we must continue our strategy of building growth through the property book of business in Ontario. Coachman posted a profit of nearly $700,000.

The action plan for 2004 was to build on the growth of the property business, which grew by 72%; continue the transition to SGI administrative systems; strengthen the claims reserving process at Coachman; and focus on the profitable auto business.

SGI CANADA staff in Regina underwrite all Home and Commercial Property products. As well, much of the administrative work related to Coachman is being done here in Saskatchewan. SGI CANADA completed the transfer of all support services from Toronto to SGI head office in Regina in 2004.

Customer Service

SGI CANADA was created 59 years ago to better serve Saskatchewan people. We are always looking for new ways to meet their needs. We know customers rely on us, and we are committed to being there when they need us.

Providing outstanding service and superior products to our customers at affordable rates is a top priority at SGI CANADA. We are always evaluating our products and looking for ways to improve and react to changes in the market.

At SGI CANADA, we strive to provide the highest value at affordable rates, without sacrificing quality or efficiency.

We have built our reputation on the belief that excellent customer service sets us apart from the competition.

A large part of that excellence in customer service is a result of SGI CANADA's close relationship with its independent network of brokers.

SGI CANADA brokers have contracts to market our products and to renew and service existing SGI CANADA insurance policies sold through their brokerages.

These independent brokerages make their own hours, pay their own expenses and have complete control over their business.

An independent broker represents the customer and not any one insurance company, to ensure that they best meet the customer's needs.

Our province's brokers are also an important centerpiece for the communities where they do business. They create employment, provide a valuable, professional service and give support to our many community-sponsored events.

In 2004, SGI CANADA continued to strengthen the bond with its brokers, and in turn, assisted its customers in various ways.

Broker Profile: Lester Lafond of Lafond Insurance & Financial Services Ltd.

One of SGI CANADA's newest additions to its strong independent broker force is Lester Lafond of Lafond Insurance & Financial Services Ltd. Opening in the fall of 2003 and located on Asimakaniseekan Askiy Reserve in Saskatoon, the insurance firm is the province's first 100 per cent First Nations-owned insurance brokerage selling SGI CANADA products.

Lafond Insurance & Financial Services Ltd. offers a wide range of insurance products as well as motor licensing services.

Lafond hopes that the respect and recognition he has earned over the years through a variety of business ventures will encourage people in the community to keep visiting the brokerage.

"I think there's a level of trust there because people know me, so they feel more comfortable," said Lafond. "We've seen a lot of progress since we opened, we've seen a positive response from the community."

2004 in Review

AIR MILES® Rewards

Through its brokers, SGI CANADA began offering its policyholders AIR MILES® on its Saskatchewan products in 2003. The program continues to be met with enthusiasm by our customers and is expected to gain even more momentum in 2005.

The AIR MILES® Reward Program has been in operation since 1992 and there are now over 8.3 million households that participate in the program across Canada. The AIR MILES® program is a simple one where you get one reward mile for every $20 you spend on an SGI CANADA insurance policy.

AIR MILES® reward contest

Continuing with the success of the AIR MILES® Reward Program, SGI CANADA was pleased to offer to its policyholders a chance to win one of four grand prizes of 10,000 bonus AIR MILES® reward miles in 2004.

Between January 1 and December 31, 2004, existing SGI CANADA policyholders who renewed, and new customers who purchased an SGI CANADA policy, were entered to win.

This unique Reward Miles Program offer was well received by our customers. The four winners in 2004 were:

1st quarter: **Carla Hill**
Regina, SK

2nd quarter: **Jacqueline Mehler**
Saskatoon, SK

3rd quarter: **Dorothy Thibert**
Birch Hills, SK

4th quarter: **Tom Williamson**
Saskatoon, SK

Commitment to the community

SGI CANADA is committed to the community.

We sponsor numerous events, activities and programs across the province, providing valuable information and resources, while at the same time building community spirit and the sense of togetherness throughout the province.

SGI CANADA Aboriginal Strategy

SGI CANADA is excited by the positive relationships we continue to build with the province's Aboriginal community.

With Saskatchewan's Aboriginal population rapidly growing, it makes sense to strengthen our relationships with members of the Aboriginal community as customers, employees and business associates.

The formation of these relationships today lays a foundation for both SGI CANADA and the Aboriginal community to continue to be successful in the future.

With that in mind, SGI CANADA has developed a corporate strategy that includes all areas of the corporation.

The goal of the strategy is to:

- Provide quality products and services to Aboriginal people so we better meet their needs.
- Build a stronger Aboriginal workforce so SGI continues to be successful in Saskatchewan into the future.
- Invest in Aboriginal communities to develop positive relationships and positive attitudes.

SGI CANADA already has a number of successful projects in place throughout the province that support these goals – such as the Aboriginal Advisory Network (AAN), the Celebration of Culture night, support through corporate donations, making driver education more accessible in northern Saskatchewan, targeted communications to Aboriginal communities and having business units dedicated to working exclusively with the Aboriginal community.

Child Restraint Clinics

For the past seven years, SGI CANADA has partnered with independent brokers from across the province to host free, drive-through clinics to educate parents and others that attend on how to properly install child restraints.

Trained volunteers work with parents and caregivers to show them how to properly install a child restraint in the vehicle and how the child should be secured in the restraint.

Since 1998, about 16,000 child restraints have been checked (which is an average of about 2,300 car seats a year). In 2004, 78 clinics were held in 56 communities across the province – checking over 2,500 car seats.

Coordinating these valuable clinics requires the co-operation of many different community agencies such as SGI CANADA brokers, health regions, ambulance services and police.

SGI CANADA Charity Curling Classic

This year marked the 12th and final year of SGI CANADA's annual curling bonspiel. The Charity Classic was held every year on Thanksgiving weekend.

Each year, Saskatchewan residents made the Charity Classic a Thanksgiving tradition and brought their families out to watch and support one of the best spiels on the World Curling Tour.

A large part of the event's success is a result of the time and effort of the many volunteers who gave up their long weekend year after year to help out at the Charity Classic.

Since its inception in 1993, the SGI CANADA Charity Classic has been one of our most successful charitable ventures.

Independent brokers and generous community minded businesses continually supported the event by donating tens of thousands of sponsorship dollars.

The four-day curling bonspiel helped raise close to $300,000 for a number of worthwhile Saskatchewan charities including the Multiple Sclerosis Society, the Saskatchewan Head Injury Association, the Children's Health Foundation, KidSport Saskatchewan, Kids Help Phone and the Canadian Diabetes Association.

SGI CANADA Charity Road Race

The SGI CANADA Charity Road Race has become one of the most popular runs in Saskatchewan since its inception in 2000.

Over 300 people participated in the fifth annual road race in 2004. Competitors from across the country took part in the event that featured 5K and 10K road races, a 2K Family Walk, as well as a 10K wheelchair race.

Proceeds from the Road Race go to the Saskatchewan chapter of Kids Help Phone, Canada's only 24-hour, toll-free, bilingual and anonymous phone counseling, referral and Internet service for children and youth.

SGI CANADA and its brokers have donated to the charity since the beginning of the event.

The annual Road Race is another example of SGI CANADA's caring and giving spirit. More than 80 volunteers, including a large number of SGI CANADA employees, helped to make the 2004 event a success.

Crime Stoppers program

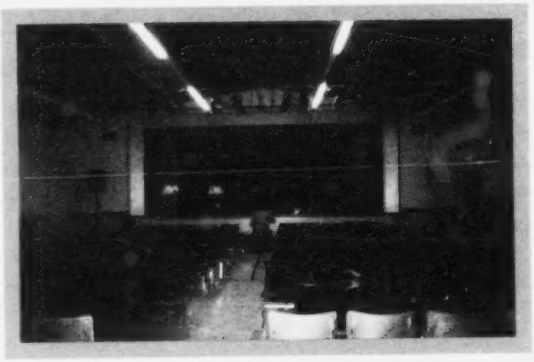
SGI CANADA is pleased to sponsor Crime Stoppers initiatives in communities across the province.

Each year Saskatoon Crime Stoppers operates a very active Student Crime Stoppers program throughout the high schools in the City of Saskatoon.

SGI CANADA has been a generous sponsor of a speaking program which is run every winter/spring, whereby Crime Stoppers brings in an educational speaker and arranges presentations at all of the Saskatoon high schools to speak about a variety of topics, including: drugs and alcohol and making positive choices.

As a sponsor of the program, SGI CANADA believes that by being proactive and providing useful information to students, we are ultimately preventing criminal behaviour before it begins.

Family Service Saskatoon – Performing Arts Program for Youth



The Performing Arts Program for Youth (PAPY) uses the techniques and discipline of the performing arts – music, theatre, dance – to help troubled 12 to 18 year olds. Through PAPY, these young people learn to address and express their feelings and thoughts in constructive and beneficial ways.

As a sponsor of the program, SGI CANADA recognizes the importance of creating opportunities for young people in Saskatchewan. By helping build self-esteem and special talents, "Arts for Youth" nurtures and supports the leaders of tomorrow.

Each year SGI CANADA donates $10,000 to the program.

Balanced Scorecard

SGI CANADA sells property and casualty insurance and is the competitive insurance arm under the umbrella of SGI, a provincially-owned Crown corporation.

SGI employs more than 1,500 people, operates 21 claims centres and five salvage centres in 13 communities across the province. SGI CANADA has developed a set of short- and long-term objectives and targets that make up our Balanced Scorecard.

SGI CANADA has met or exceeded its key targets in the financial, internal and customer service areas for 2004. SGI CANADA continues to meet most of its targets in the public policy category, exceeding the target for women in under-represented roles, aboriginal and visible minority areas.

Balanced Scorecard

SGI CANADA's performance is measured against the following key objectives.

	Strategic Objective	Strategic Measurement	2004 Target	2004 Actual
Financial	Provide return to shareholder	Pre-tax return on equity	At least 5% higher than the Canadian property and casualty insurance industry average of 23%	43.2%
		Investment portfolio return	Outperform the investment policy benchmark return of 5.1%	5.8%
Internal	Underwrite profitably	SGI CANADA loss ratio	Less than 62%	55.4%
Customer Service	Commitment to the independent broker	Saskatchewan and Manitoba broker satisfaction	90% of brokers rate SGI CANADA the same or better than the competition	93%
	Deliver highly valued service to claims customers	Saskatchewan customer service survey	94%	94%
Learning and Innovation	Improve business effectiveness through corporate training	Frontline staff receiving specialized customer experience training	75% of staff trained	93% of staff have received training
Public Policy	Economic diversification and growth	% of dollars spent in Saskatchewan	90%	71%
	Representative workforce	Women in under-represented categories	47%	49.4%
		Aboriginal	8.2%	9%
		People with disabilities	8.2%	7.2%
		Visible minorities	3.1%	3.2%
		New hires who are designated group members	25%	33.7%

Corporate Governance

Authority:

SGI CANADA is a division of SGI. It operates as a competitive insurer in the Province of Saskatchewan in accordance with the powers granted to it under *The Saskatchewan Government Insurance Act*, 1980. SGI is itself a statutory Crown corporation which is governed by *The Saskatchewan Government Insurance Act*, 1980. The Board of Directors oversees the management of the Corporation and holds management accountable for the Corporation's performance. Through the Chair, the Board of Directors is accountable to the Minister responsible for Crown Investments Corporation, who functions as a link between the Corporation and Crown Investments Corporation and Cabinet, as well as the provincial legislature.

Committees:

The Board of Directors has established the following committees to assist in the discharging of its responsibilities:

- Audit and Finance Committee
- Investment and Legislative Review Committee
- Governance Committee
- Human Resources Committee

TSE Governance Guidelines

(1) The board should explicitly assume responsibility for the stewardship of the corporation, specifically for:

(a) adoption of a strategic planning process;

SGI has a comprehensive annual strategic planning process. Senior management of the Corporation undergo a process of long-term planning on an annual basis as a preliminary step in the preparation for the Board and Executive planning conference. The Board participates in the development and approval of the final version of the strategic plan which reviews the long-term risks the Corporation may face, as well as opportunities the Corporation should investigate or pursue.

(b) the identification of the principal risks of the corporation's business and ensuring the implementation of appropriate systems to manage these risks;

The Board has delegated to the Audit and Finance Committee the responsibility for review and assessment of the nature and extent of the risks facing the Company. The Committee determines the likelihood of the risks materializing. Through this review, the Committee addresses the risks acceptable to the Corporation and, for those that are not acceptable, ensures systems are in place to manage them. On an annual basis, the Committee reports to the Board the results of the review with any recommendations as appropriate.

c) succession planning, including appointing, training and monitoring senior management;

The Board has delegated to the Human Resources Committee the responsibility to review the Corporation's succession planning strategy with the President and CEO on an annual basis. The Committee recommends to the Board a senior management succession plan.

(d) a communication policy for the corporation; and

The Corporation has a formal, written communication policy, which has been approved by the Board of Directors. The policy defines the communication practices for the Corporation, confirms that these practices will be guided by the values defined by the Corporation and commits the Corporation to providing timely communication to staff, shareholders and customers.

(e) the integrity of the corporation's internal control and management information systems.

The Board has delegated to the Audit and Finance Committee the responsibility to review annually the Corporation's internal control systems and report to the Board the results of the review.

(2) The board of directors of every corporation should be constituted with a majority of individuals who qualify as unrelated directors (i.e. one who is independent of management and is free from any interest in any business or other relationship which could, or could reasonably be perceived to, materially interfere with the director's ability to act with a view to the best interest of the corporation, other than interests and relationships arising from shareholding):

The SGI Board of Directors is constituted with a majority of unrelated directors. Kendra Chesney, SGI Information Technology Analyst, is the only related Board member.

(3) Disclosure of significant shareholders (ability to exercise a majority of votes to elect directors):

SGI is a statutory Crown corporation and, as such, it does not have any share capital.

The board is required to disclose on an annual basis the analysis of the application of the principles supporting the conclusion of whether the director is related or an unrelated director:

Nancy E. Hopkins, Chair: Unrelated
Lawyer, McDougall Gauley

J. Walter Bardua, Vice Chair: Unrelated
Retired Insurance Professional

Robert Fenwick: Unrelated
Retired Insurance Professional

Joan F.D. Baldwin: Unrelated
Doctor, Gardiner Park Clinic

Joan R. Bellegarde: Unrelated
Executive Director, File Hills Qu'Appelle Tribal Council

W.J.A. (Bill) Heidt: Unrelated
Retired Insurance Professional

Kendra Chesney: Related
Information Technology Analyst, SGI

Merin Coutts: Unrelated
Regional Sales Manager, Shaw Cable Systems G.P.

Arleen Hynd: Unrelated
Retired Charted Accountant

(4) The board of directors of every corporation should appoint a committee of directors composed exclusively of outside directors (i.e. non-management) the majority of whom are unrelated directors, with the responsibility for proposing to the full board new nominees to the board and for assessing directors on an ongoing basis.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

The Committee is comprised of four directors. They are all outside unrelated directors.

(5) Every board of directors should implement a process to be carried out by the nominating committee or other appropriate committee, for assessing the effectiveness of the board as a whole, the committees of the board and the contribution of individual directors:

The Governance Committee is charged with the responsibility of recommending to the Board of Directors a process for evaluating the performance of the Board and its members. The Committee is responsible for implementing the process and undertakes the evaluation on an annual basis.

(6) Every corporation, as an integral element of the process for appointing new directors, should provide an orientation and education program for new recruits to the board.

The Governance Committee is responsible for the implementation of an orientation program for new Board members and an ongoing education program for existing Board members. As well, Crown Investments Corporation (CIC) provides, on an annual basis, a comprehensive training program for all Crown Corporation directors.

(7) Every board of directors should examine its size and, with a view to determining the impact of the number upon effectiveness, undertake where appropriate, a program to reduce the number of directors to a number which facilitates more effective decision-making.

The Governance Committee of the Board has been charged with the responsibility to recommend to the Board, within the constraints set forth in the Articles of the Corporation and in any applicable legislation, the size and composition of the Board of Directors and the expertise of its members to meet the needs of the Corporation. As well, the Committee reviews the qualifications of potential candidates for appointment to the Board.

(8) The board of directors should review the adequacy and form of the compensation of directors and ensure the compensation realistically reflects the responsibilities and risk involved in being an effective director.

Crown Investments Corporation is mandated by legislation to set the remuneration for the SGI Board of Directors.

(9a) A committee should be generally composed of non-management directors:

The Board Committees are comprised entirely of outside directors.

(b) The majority of committee members should be unrelated:

All directors appointed to the Committees are unrelated, with the exception of one member appointed to the Investment and Legislation Review Committee.

(10) Every board of directors should expressly assume responsibility for, or assign to a committee of directors the general responsibility for, developing the corporation's approach to governance issues. This committee would, amongst other things, be responsible for the corporation's response to these governance guidelines:

The Board has formed a Governance Committee, which is responsible for monitoring the governance of the Board and Committees of the Board. The Committee recommends governance issues to be discussed at the Board level.

(11a) The board of directors, together with the CEO, should develop position descriptions for the board and for the CEO involving the definition of the limits to management's responsibilities:

The Board has approved Terms of Reference which describe its responsibilities. As well, the Governance Committee reviews, as required and at least annually, the duties and responsibilities of the Board and all Board committees and recommends to the Board any amendments as deemed necessary or advisable, including identification of committees to which management should report on specific issues.

(b) The board should approve or develop the corporation's objectives which the CEO is responsible for meeting:

The CEO has a job description, which is reviewed by the Human Resources Committee. The CEO is responsible for meeting the targets outlined in the Corporate Balanced Scorecard against which he is evaluated on an annual basis. The CEO evaluation is undertaken by the Human Resources Committee, and reported to and approved by the Board.

(12) Every board of directors should have in place appropriate structures and procedures to ensure that the board can function independently of management:

The Chair of the Board is an outside, unrelated director.

The Board of Directors holds an in camera session at the beginning of each meeting, during which time management is excused.

(13) The audit committee of every board of directors should be composed only of outside directors. The roles and responsibilities of the audit committee should be specifically defined so as to provide appropriate guidance to committee members as to their duties. The audit committee should have direct communication channels with the internal and external auditors to discuss and review specific issues, as appropriate. The audit committee's duties should include oversight responsibility for management reporting on internal control. It is the responsibility of the audit committee to ensure that management has designed and implemented an effective system of internal control.

The Audit and Finance Committee is comprised entirely of outside, unrelated directors. The Committee includes a retired chartered accountant, a certified management accountant, and all members of the Committee are financially literate. The Committee has a Board-approved mandate, which is reviewed regularly by both the Audit Committee itself and the Governance Committee.

The Audit and Finance Committee meets at each meeting with both the external and internal auditors, during which time all management is excused.

The Committee's responsibilities include reviewing: the results of the external auditors' review of the Corporation's financial records; the plans and accomplishments of the internal auditor; and the reports of the internal and external auditors with respect to the Corporation's internal control systems. The Committee reports to the Board any matters which may remain unresolved.

(14) The board of directors should implement a system, which enables an individual director to engage an outside adviser at the expense of the company in appropriate circumstances. The engagement of the outside adviser should be subject to the approval of an appropriate committee of the board.

As part of their constitution, the Board and its Committees have the authority to obtain the advice of outside experts in instances where they believe it is required, in order to properly discharge their obligations to the Corporation.

Management Discussion and Analysis

Introduction

The information in this discussion and analysis should be read in conjunction with SGI CANADA's (the Corporation's) consolidated financial statements and accompanying notes. This report is intended to assist the reader in understanding the financial position and operating results of the Corporation.

2004 Overview

SGI CANADA recorded a profit of $41.7 million in 2004, the highest profit in the Corporation's 59 years of operation. The Corporation also recorded a $15.9 million underwriting profit, the largest in its history. The highest underwriting profit previously recorded was $5.4 million in 1989.

SGI CANADA's profit almost doubled from the $21.2 million recorded in 2003. Underwriting profit is $13.3 million higher than 2003, while investment earnings improved by $7.8 million. Profitability was up significantly in SGI CANADA's main market of Saskatchewan, almost $19 million more than 2003 results. Operations outside of Saskatchewan also improved substantially. Profits in 2004 from Manitoba, Ontario and Prince Edward Island operations are $2.8 million, more than double the profits recorded in 2003.

For SGI CANADA and the entire property and casualty insurance industry, the cycle of recovery from the downturn experienced from 1998 to 2002 began in 2003 and continued during 2004.

SGI CANADA realized a 2004 43% pre-tax return on equity, significantly higher than the 25% return on equity realized in 2003. The Canadian insurance industry is forecasting an average pre-tax return on equity of 23% in 2004.

Core Business

SGI CANADA is a provincially owned Crown corporation operating a property and casualty insurance business. The Corporation was formed 59 years ago to provide quality affordable insurance products to Saskatchewan residents. SGI CANADA and its subsidiaries sell property and casualty insurance products in Saskatchewan, Manitoba, Ontario, Prince Edward Island and New Brunswick.

In Saskatchewan, SGI CANADA has a long history of stability and community involvement throughout the province. This strong history and ongoing commitment to Saskatchewan has helped SGI CANADA maintain a significant share of this market. The products SGI CANADA sells are delivered through a network of over 300 independent brokers located throughout the province. In order to continue delivering insurance products that customers desire, SGI CANADA works closely with its brokers to obtain input and advice on the changing needs of customers. With the assistance of the brokers, SGI CANADA continues to take the lead in delivering innovative insurance products to Saskatchewan residents and businesses.

SGI CANADA's ability to follow a disciplined underwriting approach in order to achieve underwriting profitability has been critical to its success. While the highly competitive market over the last several years has put pressure on SGI CANADA and all insurance companies' underwriting margins, the Corporation has historically been very successful at underwriting. This success has come from two areas; a large database of information in its underwriting system to properly assess risk, and committed and experienced employees and brokers. The Corporation has been successful at retaining its employees, which over the years has contributed to its superior loss ratio in the Saskatchewan market compared to the insurance industry overall.

Growth and Diversification

In the early 1990s, SGI CANADA formed SGI CANADA Insurance Services Ltd. (SCISL), a subsidiary of SGI CANADA, to sell insurance in other Canadian jurisdictions. Growth outside Saskatchewan was sought to spread geographic insurance risk, grow the revenue base and maintain and create jobs in the province. Prior to the formation of SCISL, SGI CANADA derived 100% of its revenue from Saskatchewan with a significant share of the market and very limited growth opportunities. SCISL began operations by obtaining a licence in Manitoba in 1993. Since this market was similar to Saskatchewan, growth was achieved using the same model as SGI CANADA, appointing quality brokers one at a time and following disciplined underwriting practices. The goal was careful, controlled growth and development of a strong relationship with local brokers. At the end of 2004, SCISL's Manitoba direct premiums are just over $12.0 million.

Since SCISL lacked underwriting experience outside the Prairie provinces, the growth strategy in other provinces was through acquisition. On January 1, 2001, SCISL purchased 75% ownership in the Insurance Company of Prince Edward Island (ICPEI). The other 25% shareholder is from Prince Edward Island and has extensive experience in this market. ICPEI provides the underwriting expertise, while SCISL provides the infrastructure such as computer systems, reinsurance and accounting. ICPEI currently writes just under $9.0 million of primarily auto and personal lines direct premiums in Prince Edward Island, with a small component in New Brunswick.

SCISL obtained an insurance licence in Ontario in 1995, however, growth was limited. To advance growth in this market, on July 1, 2001, SCISL acquired Coachman Insurance Company of Ontario (Coachman), a niche writer of medium-risk personal automobile insurance. Coachman's network of brokers has been leveraged since its acquisition to sell SGI CANADA property products, with direct property premiums growing by $3.1 million in 2004. Coachman currently writes over $25.0 million of direct automobile premiums and $7.0 million of direct property premiums in Ontario.

Although SGI CANADA may not be profitable in all geographic locations each year, expanding into other market segments will smooth out financial results over time. For example, a particular market segment may experience competitive pressures or extreme weather conditions resulting in losses. These losses can be offset by other markets not experiencing those same conditions. Therefore, it is important for SGI CANADA to continue to spread its geographic risk outside of the province, while at the same time creating and maintaining jobs in Saskatchewan and earning a profit.

Measuring Success

Financial success at SGI CANADA is measured by the Corporation's ability to provide an above average return on the equity invested by the shareholder. SGI CANADA's target is to have a return on equity that is higher than the insurance industry average. Historically, SGI CANADA's market knowledge has resulted in success in achieving this target.

To be able to deliver this above average return on equity, the Corporation must be able to deliver highly valued service to its customers. SGI CANADA surveys its brokers annually, as well as being a part of a periodic Insurance Brokers' Association of Saskatchewan survey. These surveys are analyzed to determine areas of strength and weakness, and followed up with brokers to ensure we continue to deliver quality service.

Another critical area of customer service is in the claim handling process. To ensure the Corporation is maintaining its focus on customer service in the claim handling process, semi-annual surveys are sent to customers who have recently had a claim. These surveys are analyzed to determine if any issues exist that should be addressed through changes in claim handling policies or procedures.

SGI CANADA places a great deal of importance on the continual education and training of employees. Both technical and customer service training are emphasized at SGI CANADA. Providing these tools to employees leads to highly valued customer service from employees who have expertise to properly underwrite risks and adjust claims. Training is evaluated on an ongoing basis to ensure it provides employees with enhanced skills required to achieve the Corporation's vision.

Overview of 2004 Operations

The net profit in 2004 is $41.7 million compared to $21.2 million in 2003, an increase of $20.5 million. The income from Saskatchewan operations is $38.9 million, $18.9 million more than 2003. Income from operations outside of Saskatchewan is $2.8 million in 2004, more than double the income of $1.3 million in 2003. Product changes made over the last several years and price stabilization has resulted in a consolidated underwriting profit of $15.9 million ($13.3 million more than the 2003 underwriting profit of $2.6 million).

Net Premiums Written

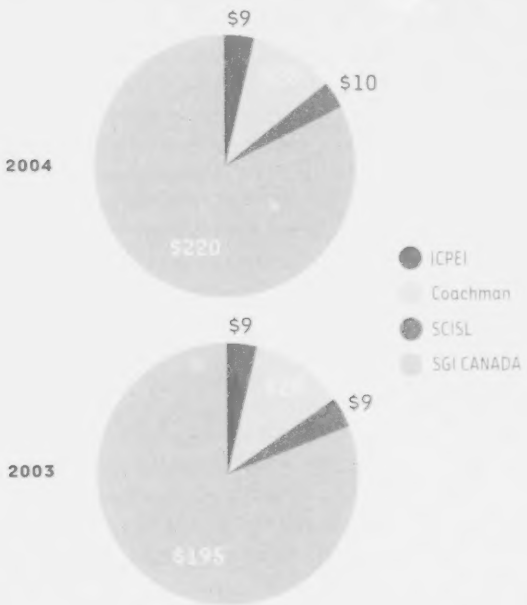
In 2004, premiums written totaled $278.0 million compared to $249.0 million in 2003, an increase of 11.6% or $29.0 million. Saskatchewan premiums grew significantly, by $19.6 million or 9.3%. Premium growth is across all business lines with growth in automobile extension premiums as well as commercial and personal property business.

The other major factor influencing the premium written base in 2004 is Coachman's movement to six-month automobile policies in 2003. The transition reduced the written base in 2003. However, premium levels have returned to normal levels in 2004, as the complete book of auto business has now been converted. The result is an increase in Coachman net premiums written of $9.3 million.

Net Premiums Earned

Premiums earned in 2004 are $267.5 million, an increase of $26.5 million or 11.0% from 2003. The majority of premium growth is attributable to Saskatchewan operations ($25.7 million), with solid growth in all lines of business. Growth in net premiums earned from outside Saskatchewan is $779,000.

Net Premiums Earned (by company)



(millions $)

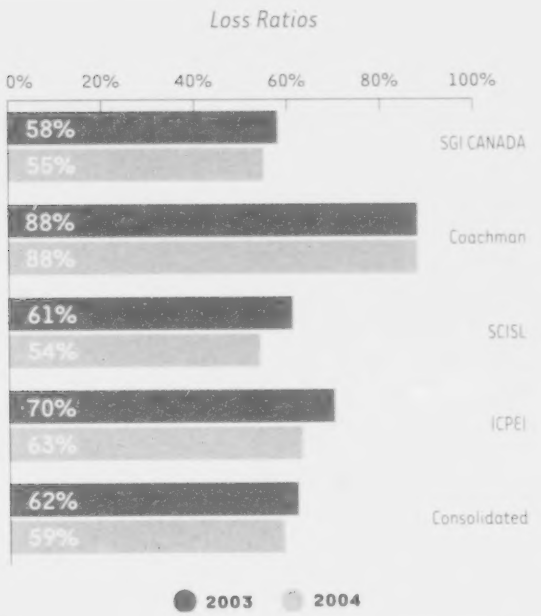
In 2004, automobile premium revenue represents 46% of total premiums, compared to 49% in 2003. The portion of automobile business is slightly lower than the Canadian property and casualty industry total of approximately 49%.

Net Premiums Earned (by type)

Claims Incurred and Provision for Unpaid Claims

Claim costs in relation to premiums earned are commonly referred to in the insurance industry as a loss ratio. The loss ratios have decreased in comparison to 2003 for all operating segments with the exception of Coachman whose loss ratio remained unchanged. The consolidated loss ratio is 59% compared to 62% in 2003.

Both SCISL and ICPEI's loss ratio declined by 7% in 2004. SCISL's loss ratio improved due to fewer significant losses in 2004. ICPEI's loss ratio is lower in 2004 due to reduced auto claim costs as well as losses that ICPEI incurred in 2003 from Hurricane Juan. SGI CANADA's loss ratio of 55% declined by 3% from 2003. Fewer Saskatchewan summer storms contributed to the improved loss ratio.



The Corporation establishes provisions for unpaid claims as they are reported. This provision is adjusted as more information becomes available about the claim. With the assistance of an external actuary, a provision is also established for future development on reported claims and claims that have not yet been reported.

Determining future development on reported claims and unreported claims is based on historical claims experience and other factors such as future inflation expectations, court decisions and economic conditions. The provision for claims that are paid out quickly, such as property claims, are generally easier to determine than claims that take several years to settle, such as liability claims, which can be very difficult to predict. On the current book of business, there was $916,000 in excess reserves for prior year claims, compared to an excess related to prior year claims of $7.5 million in 2003.

Prior to 1986, the Corporation wrote a book of reinsurance assumed business. Reinsurance assumed is the process of accepting a portion of insurance risks from other insurance companies. While this business has not been written since 1985, some of the business is long-term in nature and the costs are very unpredictable. Therefore, as more information becomes available on these claims, the Corporation has to adjust reserves. When possible, the Corporation commutes portions of the assumed business, which eliminates all claims exposure. In 2003 and 2004 there were no changes in claims incurred associated with this business. The net provision for unpaid claims relating to this business at the end of 2004 is $11.0 million (2003 - $10.5 million).

In 2003, insurance regulators and the Canadian Institute of Actuaries (CIA) moved to the same standard of discounting claim liabilities to recognize the time value of money. The provision for unpaid claim liabilities in these audited financial statements has been recorded on a partially discounted basis, which is permissible under Canadian Generally Accepted Accounting Principles. However, because the provision is only partially discounted, the CIA's policy is to provide a qualification in the actuary's report. The Corporation will continue to monitor the industry to determine if the industry standard for external reporting moves towards full discounting of claim liabilities.

Expenses Excluding Claims Incurred

Expenses excluding claims incurred are $94.0 million, an increase of $5.7 million from 2003. However, due to the growth in premiums, the overall ratio of other expenses to premiums on a consolidated basis has actually declined slightly to 35% in 2004 from 37% in 2003.

Commissions and taxes have increased proportionately with growth in the premium base.

Administrative expenses declined slightly from $29.1 million in 2003 to $28.3 million in 2004. SGI CANADA is able to realize efficiencies and synergies through leveraging SGI CANADA's technology infrastructure with the transfer of support services to Saskatchewan for the Corporation's out of province subsidiaries. Participation in the Facility Association also contributed to the decline in other expenses in 2004. The automobile risk sharing pools in Ontario and Prince Edward Island contributed income of $1.4 million in 2004 compared to a loss of $1.1 million in 2003.

Investment Earnings

Insurance companies hold funds in reserve for unearned premiums and unpaid claims. These funds, in addition to the company's equity base, form a large pool of assets used for investment purposes. Earnings from the investment portfolio supplement earnings from insurance operations. Because a portion of these funds are held only for short periods, and because of the unpredictability of large cash outflows due to weather, an insurance company must take a more short-term investment approach compared to a pension plan, which invests its funds for longer periods.

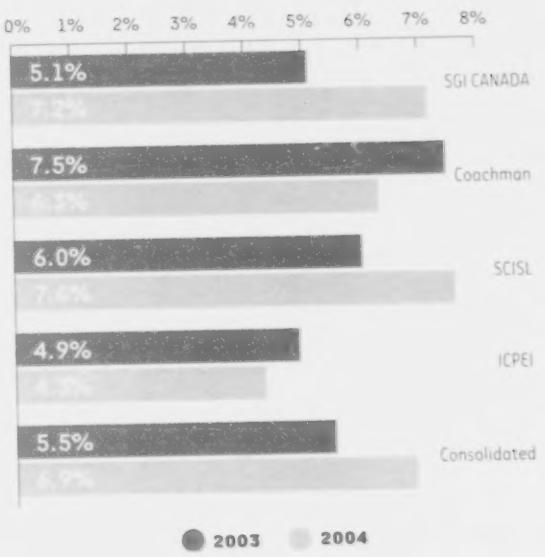
The Corporation records the appreciation in market value of its investments only upon sale of the investment. This results in unrealized gains in the investment portfolio, which are not recorded in the financial statements. The net unrealized gains in the investment portfolio at the end of 2004 are $21.1 million, compared to $19.8 million in 2003.

Consolidated investment earnings in 2004 are $27.4 million, $7.8 million more than 2003, due to realized gains on the sale of investments, which vary significantly from year to year. The Corporation realized gains (net of writedowns) on the sale of investments in 2004 of $11.1 million, compared to $4.6 million in 2003.

Investment Earnings

The increase in investment income from realized gains on the sale of investments is reflected in the 2004 consolidated return on investments of 6.9%, which is 1.4% higher than 2003. Realized gains on the sale of investments were higher for both SGI CANADA and SCISL in 2004, resulting in increased returns on investments.

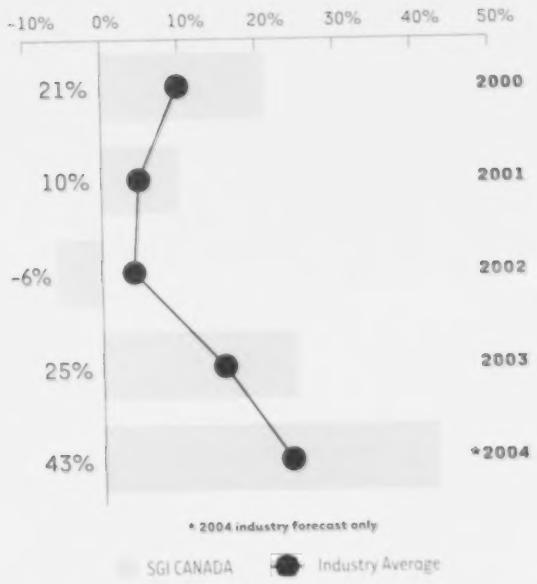
Return on Investments



Performance Measurement Ratios

Return-on-equity is a measurement of profit earned relative to the equity invested by the shareholder of the Corporation. The pre-tax return on equity in 2004 was 43%, compared to 25% in 2003. The increase was a result of strong underwriting results combined with solid investment earnings. SGI CANADA's 10-year average return on equity is 17.8%.

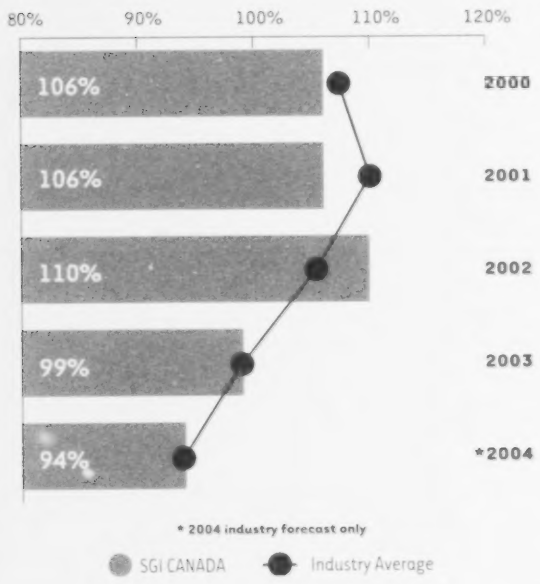
Return on Equity (pre-tax)



Loss ratio is an insurance industry measurement expressing claims incurred as a percentage of premiums earned. The loss ratio on current operations decreased from 62% in 2003 to 59% in 2004.

The combined ratio is a measurement of total expenses (including claims) in relation to premiums earned. Insurance companies attempt to achieve a ratio of less than 100%, which represents an underwriting profit. The Corporation succeeded in 2004 with a combined ratio of 94% (2003 - 99%). With the exception of 2002, SGI CANADA has maintained a combined ratio the same as or lower than the industry average in the last five years.

Combined Ratio



Net risk ratio is an industry measurement, which is the ratio of net premiums written to equity, and gives an indication of a company's financial strength to support the insurance business that it writes. The lower the ratio, the better the insurance company's financial resources can withstand adverse underwriting results. The regulatory guideline is 3.0 or lower. SGI CANADA's consolidated net risk ratio at December 31, 2004 is 2.7 (2003 – 2.8).

A second measure of a company's financial strength is the Minimum Capital Test (MCT), which is an industry solvency test for property and casualty insurers. The MCT measures capital requirements in relation to the degree of risk that an individual institution assumes. A company's equity is subjected to solvency adjustments determined on a quasi-liquidation basis to establish excess capital available. The industry minimum threshold is a requirement to have 1.5 times or 150% of capital available over capital required. SGI CANADA's MCT at December 31, 2004 is 184% (2003 – 188%).

Reinsurance

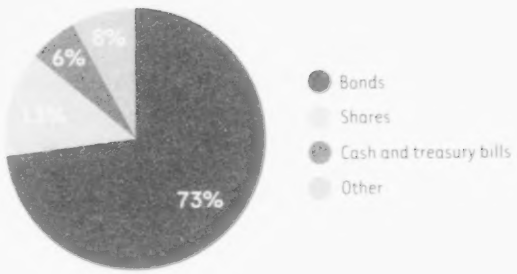
Reinsurance is the process of passing part of a risk or risks from one insurance company to another insurance company (the reinsurer). Two of the key reasons for reinsuring are increasing the insurance company's capacity to write business and providing greater stability by reducing fluctuations in financial results due to large individual losses or catastrophic events.

The Corporation purchases a variety of proportional and excess reinsurance contracts that provide coverage on a per risk or per event basis to limit exposure from large single losses or catastrophic events. Reinsurers are carefully selected with an emphasis on continuity and long-term relationships. Solvency of reinsurers is paramount in this process.

Liquidity

Given the Corporation's reinsurance program to protect against major catastrophes and its conservative investment portfolio, the Corporation is confident there is sufficient cash flow to meet all its financial obligations as they fall due. In 2004, cash inflows from insurance operations provided $54.7 million in cash compared to $42.2 million in 2003. As of December 31, 2004, the Corporation's investment base was $373.1 million, consisting mainly of treasury bills, government and corporate bonds and common shares of Canadian companies.

Investment Portfolio
as at Dec. 31, 2004



Risk Management

Corporate risk management is a dynamic process. The Corporation has identified potential risks the organization faces. These risks are evaluated as to consequence, severity and likelihood and then analyzed to determine what mitigating steps are necessary to reduce the inherent risk. Mitigating strategies have been implemented to reduce to acceptable levels those risks with significant impact to the Corporation or a high likelihood of occurring. This in-depth risk assessment is conducted on a semi-annual basis and presented to the Audit Committee of the Board of Directors.

The following issues and risks, among others, should be considered when evaluating the Corporation:

Privacy Management Program

The implementation of privacy legislation has led to the development of a privacy management framework within the Corporation. The framework calls for a staged action plan to meet legislative requirements imposed by *The Freedom of Information and Protection of Privacy Act* and other privacy legislation. It will ensure that policies and practices are in place to protect privacy and personal information.

Business Interruption

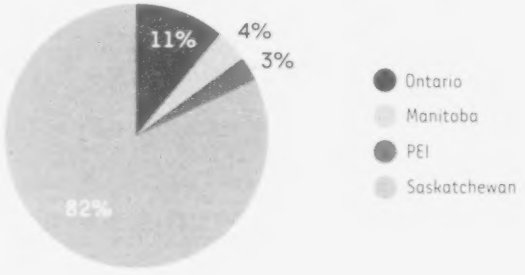
The Corporation has developed a business continuity plan to ensure that essential services for customers are maintained. The plan includes an alternate computing services site that houses servers for the Corporation's major applications. It can be instantly activated and accommodates short-term disruptions.

Catastrophe Exposure

Property and casualty insurers are subject to losses arising from catastrophic events. With the Corporation having a significant portion of the Saskatchewan property insurance market, it is susceptible to large losses from major storms in Saskatchewan. To contain this risk, the Corporation purchases catastrophe reinsurance protection that reduces the potential impact from major losses as a result of catastrophic events. While the Corporation has a heavier geographic concentration of risk than other major insurance companies in Canada, it is less susceptible than other insurance companies to catastrophes from earthquakes and hurricanes because of the location of its insurance business.

To reduce the concentration of risk, the Corporation began expanding into other Canadian provinces in the early 1990s through its subsidiary, SCISL. The percentage of premium revenue from Saskatchewan business was 82% at the end of 2004.

2004 Premiums Earned by Province



Competition

The insurance industry in Canada is very competitive and continues to underwrite its insurance operations at a loss. As well, prices in the industry can be very cyclical. When rates become profitable, some insurers begin dropping rates to obtain market share and will reduce rates to unprofitable levels. The Corporation's strategy is to maintain its underwriting principles. This may result in some reduction in business until prices return to acceptable levels. Competition also exists from insurers with different distribution channels, such as direct writers.

Provision for Unpaid Claims

The Corporation maintains a provision for unpaid claims to cover its liability for future payments on these claims. The provision includes an estimate for future development on reported claims and an estimate for claims that have not yet been reported to the Corporation. These provisions are estimates, and the ultimate payment on these claims may differ from the estimate.

Investment Returns

The majority of the Corporation's profit is derived from its investment portfolio. Returns from capital markets are uncertain and fluctuate from year to year. To mitigate the fluctuations, the Corporation maintains a well-diversified investment portfolio and utilizes the services of an investment manager.

The investment manager follows the guidelines established in the Investment Policy and Objectives, which provides the manager with a guideline for the quality, quantity and rate of return standards for the portfolio. The Investment Policy and Objectives for the investment manager is reviewed annually by management and approved by the Board of Directors. Investment managers produce quarterly reports on the performance of assets under their management that are reviewed by corporate management and the Investment Committee of the Board of Directors. As well, the Corporation utilizes the services of an investment consultant to independently review and report on the performance of the investment managers.

Foreign currency exposure arises from the Corporation holding investments denominated in currencies other than the Canadian dollar. Fluctuations in the relative value of the Canadian dollar against foreign currencies result in a positive or negative effect on the fair value of investments. The Corporation manages the foreign currency risk by limiting its holdings of foreign investments to a maximum of 13% of the market value of the entire investment portfolio.

The Corporation invests in publicly traded equities and bonds available on domestic and foreign exchanges. Market changes and fluctuations affect these securities. The market risk is managed by investing in different domestic and foreign markets and through the establishment and review of asset mix ranges and limits for various investments. The Corporation does not use derivative financial instruments to alter the effects of these market changes and fluctuations.

Looking Forward

The Corporation had a remarkable year in 2004 and set records for underwriting and overall profitability. A hardening of the insurance market has resulted in rate increases to ensure adequate pricing of insurance products and to address industry deficits from 2001 and 2002, which were two of the worst years in the industry's history. As profitability rises, historical trends suggest the industry will experience an eventual downturn in pricing. SGI CANADA will continue to focus on rate adequacy in all jurisdictions in which it sells insurance. As well, out of province expansion to spread our concentration of risk, grow revenue and create jobs will remain a priority. The Corporation's successful business strategy of disciplined underwriting and controlled growth will continue going forward.

Responsibility for Financial Statements

The consolidated financial statements are the responsibility of management and have been prepared in conformity with accounting principles generally accepted in Canada. In the opinion of management, the consolidated financial statements fairly reflect the financial position, results of operations and cash flows of Saskatchewan Government Insurance (the Corporation) within reasonable limits of materiality.

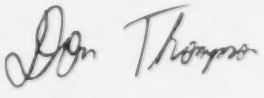
Preparation of financial information is an integral part of management's broader responsibilities for the ongoing operations of the Corporation. Management maintains an extensive system of internal accounting controls to ensure that transactions are accurately recorded on a timely basis, are properly approved and result in reliable financial statements. The adequacy and operation of the control systems are monitored on an ongoing basis by an internal audit department.

An actuary has been appointed by the Corporation to carry out a valuation of the policy liabilities in accordance with accepted actuarial practice and common Canadian insurance regulatory requirements. The policy liabilities consist of a provision for unpaid claim and adjustment expenses on the earned portion of policies and of future obligations on the unearned portion of policies. In performing this valuation, the actuary makes assumptions as to future rates of claim frequency and severity, inflation, reinsurance recoveries, expenses and other contingencies, taking into consideration the circumstances of the Corporation and the nature of the insurance policies. The actuary also makes use of management information provided by the Corporation and the work of the external auditors in verifying the data used in the valuation.

The consolidated financial statements have been examined and approved by the Board of Directors. An Audit Committee, composed of members of the Board of Directors, meets periodically with financial officers of the Corporation and the external auditors. These external auditors have free access to this Committee, without management present, to discuss the results of their audit work and their opinion on the adequacy of internal financial controls and the quality of financial reporting.

As appointed by the Lieutenant Governor in Council and approved by Crown Investments Corporation of Saskatchewan, KPMG LLP have been appointed external auditors. Their responsibility is to report to the Members of the Legislative Assembly regarding the fairness of presentation of the Corporation's financial position and results of operations as shown in the consolidated financial statements. In carrying out their audit, the external auditors also make use of the work of the actuary and his report on the policy liabilities. The Auditors' Report outlines the scope of their examination and their opinion.

Jon Schubert
President



Don Thompson
Vice President
Finance

February 23, 2005

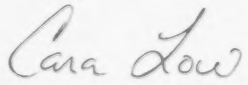
Actuary's Report

To the Board of Directors of
Saskatchewan Government Insurance

I have valued the policy liabilities of SGI CANADA for its consolidated statement of financial position at December 31, 2004 and their change in the consolidated statement of operations and retained earnings for the year then ended in accordance with accepted actuarial practice, including selection of appropriate assumptions and methods, except as described in the following paragraph.

In accepted actuarial practice, the valuation of policy liabilities reflects the time value of money. Management required that the valuation of some policy liabilities not reflect the time value of money, which is permissible under Canadian Generally Accepted Accounting Principles for financial reporting purposes. My valuation complies with that practice.

In my opinion, except as noted in the previous paragraph, the amount of policy liabilities makes appropriate provision for all policyholder obligations, and the consolidated financial statements fairly present the results of the valuation.



Cara Low
Fellow, Canadian Institute of Actuaries

February 23, 2005

Auditors' Report

To the Members of the Legislative Assembly
Province of Saskatchewan

We have audited the consolidated statement of financial position of Saskatchewan Government Insurance as at December 31, 2004 and the consolidated statements of operations and retained earnings and cash flows for the year then ended. These financial statements are the responsibility of the Corporation's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Corporation as at December 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

KPMG LLP

Chartered Accountants
Regina, Canada

February 23, 2005

Consolidated Statement of Financial Position

December 31	2004	2003
	(thousands of $)	
Assets		
Cash and cash equivalents (note 3)	$ 24,135	$ 29,797
Accounts receivable (note 4)	74,070	67,366
Deferred policy acquisition costs	35,371	32,854
Future income taxes (note 13)	5,253	1,180
Reinsurers' share of unearned premiums	8,596	8,339
Investments (note 5)	346,267	305,620
Net investment in capital lease (note 6)	2,700	2,996
Goodwill	481	481
Unpaid claims recoverable from reinsurers (note 8)	27,914	24,782
Property, plant and equipment (note 7)	9,312	9,967
	$ 534,099	$ 483,382
Liabilities		
Accounts payable and accrued charges	$ 15,609	$ 14,168
Dividend payable	5,932	5,664
Future income taxes (note 13)	5,182	1,007
Premium taxes payable	12,432	11,637
Amounts due to reinsurers	5,109	5,218
Unearned reinsurance commissions	1,564	1,442
Unearned premiums	148,431	138,409
Provision for unpaid claims (note 8)	232,560	211,128
	426,819	388,673
Non-controlling interest	**1,236**	2,205
Province of Saskatchewan's equity		
Equity advances (note 9)	55,000	55,000
Retained earnings	51,044	37,504
	106,044	92,504
	$ 534,099	$ 483,382

Commitments (note 20)

(see accompanying notes)

Consolidated Statement of Operations and Retained Earnings

Year ended December 31	2004	2003
	(thousands of $)	
Gross premiums written	$ 300,787	$ 272,402
Net premiums written	$ 277,960	$ 249,025
Net premiums earned (note 10)	**$ 267,487**	$ 241,020
Claims incurred (notes 10 & 11)	157,630	150,192
Commissions (note 10)	54,147	46,503
Administrative expenses (note 10)	28,283	29,118
Premium taxes (note 10)	12,915	11,593
Facility Association participation (note 18)	(1,362)	1,063
Total claims and expenses	**251,613**	238,469
Underwriting profit	**15,874**	2,551
Investment earnings (note 12)	27,350	19,560
Income before income taxes and non-controlling interest	**43,224**	22,111
Income taxes (note 13)	1,218	621
Income after income taxes and before non-controlling interest	**42,006**	21,490
Non-controlling interest	322	288
Net income	**41,684**	21,202
Retained earnings, beginning of year	37,504	30,084
Dividend	(27,095)	(13,782)
Related party transaction (note 16)	(1,049)	-
Retained earnings, end of year	**$ 51,044**	$ 37,504

(see accompanying notes)

Consolidated Statement of Cash Flows

Year ended December 31	2004	2003
	(thousands of $)	
Cash provided by (used for):		
Operating activities		
Net income	$ 41,684	$ 21,202
Non-cash items:		
Amortization	3,346	3,226
Realized gain on disposal of investments	(12,445)	(5,322)
Future income taxes	102	478
Investment write downs	1,385	741
Income attributable to non-controlling interest	322	288
Income from investments accounted for on the equity basis	(784)	(255)
Change in non-cash operating items (note 14)	21,093	21,837
	54,703	42,195
Investing activities		
Purchases of investments	(576,053)	(484,815)
Proceeds on sale of investments	543,156	464,324
Repayment of capital lease	296	268
Purchases of property, plant and equipment	(937)	(821)
	(33,538)	(21,044)
Financing activities		
Dividends paid	(26,827)	(8,117)
Increase (decrease) in cash and cash equivalents	**(5,662)**	13,034
Cash and cash equivalents, beginning of year	29,797	16,763
Cash and cash equivalents, end of year	$ **24,135**	$ 29,797

(see accompanying notes)

Notes to the Consolidated Financial Statements

December 31, 2004

1. Status of the Corporation

Saskatchewan Government Insurance (the Corporation), which operates under the trade name of SGI CANADA, was established as a branch of the Public Service by the *Government of Saskatchewan Insurance Act*, 1944, reorganized pursuant to *The Saskatchewan Government Insurance Act*, 1946, and continued under the provisions of *The Saskatchewan Government Insurance Act*, 1980.

The Corporation conducts a property/casualty insurance business in the Province of Saskatchewan under the provisions of its Act and also acts as administrator of the Saskatchewan Auto Fund under the provisions of the *Automobile Accident Insurance Act*.

As a subsidiary of Crown Investments Corporation of Saskatchewan (CIC), the financial results of the Corporation are included in the consolidated financial statements of CIC. The Corporation is a provincial Crown corporation and as a result is not subject to federal or provincial income taxes. The Corporation's subsidiary, SGI CANADA Insurance Services Ltd. (SCISL), which operates in provinces other than Saskatchewan, is subject to federal and provincial income taxes.

2. Significant Accounting Policies

The accounting policies of the Corporation are in accordance with Canadian generally accepted accounting principles. The following are considered to be significant:

Consolidation

The consolidated financial statements include the accounts of the Corporation and the consolidated accounts of its 100% (2003 – 91%) owned subsidiary, SCISL. All inter-company accounts and transactions have been eliminated on consolidation.

Deferred policy acquisition costs

Premium taxes, commissions and certain underwriting and policy issuance costs are charged to expense over the terms of the insurance policies to which such costs relate. The method followed in determining the deferred policy acquisition costs limits the amount of the deferral to the amount recoverable from unearned premiums after giving consideration to investment income, as well as claim and adjustment expenses expected to be incurred as the premiums are earned.

Goodwill

Goodwill is the residual amount that results when the purchase price of an acquired business exceeds the sum of the amounts allocated to the assets acquired, less liabilities assumed, based on their fair values. Goodwill is allocated, as of the date of the business combination, to the Company's reporting units that are expected to benefit from the synergies of the business combination.

Goodwill is not amortized and is tested for impairment annually, or more frequently, if events or changes in circumstances indicate that the asset might be impaired. The impairment test is carried out in two steps. In the first step, the carrying amount of the reporting unit is compared with its fair value. When the fair value of a reporting unit exceeds its carrying amount, goodwill of the reporting unit is considered not to be impaired and the second step of the impairment test is unnecessary.

The second step is carried out when the carrying amount of a reporting unit exceeds its fair value, in which case, the implied fair value of the reporting unit's goodwill is compared with its carrying amount to measure the amount of the impairment loss, if any. The implied fair value of goodwill is determined in the same manner, as the value of goodwill is determined in a business combination described in the preceding paragraph, using the fair value of the reporting unit as if it was the purchase price. When the carrying amount of reporting unit goodwill exceeds the implied fair value of the goodwill, an impairment loss is recognized in an amount equal to the excess and is presented as a separate line item in the statement of earnings before extraordinary items and discontinued operations.

Investments

Bonds, debentures and mortgages are recorded at amortized cost. Treasury bills, common shares, preferred shares and pooled equity funds are recorded at cost. Dividends on common shares are recognized as income on their record dates. Gains and losses on the sale of investments are recognized on their trade date.

Where the Corporation has investments in shares and exercises significant influence, the investments are accounted for on the equity basis and the Corporation's investment is adjusted for its share of the investee's net earnings or losses and reduced by dividends received.

Investments are written down when there is a decline in value that is other than temporary.

Capital lease

Investment earnings related to the direct financing lease are recognized in a manner that produces a constant rate of return on the investment in the lease. The net investment in the lease is composed of net minimum lease payments less unearned finance income.

Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is recorded on a straight-line basis, commencing in the year in which the assets are placed in service, over their estimated useful lives as follows:

Building	2½%
Computer hardware, system costs and other equipment	20 - 50%

Provision for unpaid claims

The provision for unpaid claims represents an estimate of the total cost of outstanding claims to the year-end date. Included in the estimate are reported claims, claims incurred but not reported and an estimate of adjustment expenses to be incurred on these claims. The provision is calculated without discounting except for long-term disability claims. The estimates are necessarily subject to uncertainty and are selected from a range of possible outcomes. During the life of the claim, adjustments to the estimates are made as additional information becomes available. The change in outstanding losses plus paid losses is reported as claims incurred in the current period.

Premiums

Premiums written are taken into income over the terms of the related policies. Unearned premiums represent the portion of the policy premiums relating to the unexpired term of each policy.

Reinsurance ceded

Reinsurance premiums ceded and reinsurance recoveries on losses incurred are recorded as reductions of the respective income and expense accounts.

Unpaid claims recoverable from reinsurers, reinsurers' share of unearned premiums and unearned reinsurance commissions are estimated in a manner consistent with the method used for determining the provision for unpaid claims, unearned premiums and deferred policy acquisition costs respectively.

Income taxes

The Corporation uses the asset and liability method of accounting for income taxes. Current income taxes are recognized as estimated income taxes payable for the current year. Future income tax assets and liabilities consist of temporary differences between tax and accounting bases of assets and liabilities as well as the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized. The effect on future tax assets and liabilities of a change in tax rates is recognized as income in the period that includes the date of enactment or substantive enactment. A valuation allowance is recorded against any future income tax asset if it is more likely than not that the asset will not be realized.

Foreign currency translation

Monetary items denominated in foreign currency are translated at the exchange rate in effect at the year end. Investments, revenues and expenses are translated at the exchange rate in effect at the transaction date. Unrealized gains and/or losses arising on translation are charged to operations in the current year.

Cash and cash equivalents

Cash and cash equivalents consist of cash on hand and treasury bills with a maturity of 90 days or less from the date of acquisition.

Employees' future benefits

The Corporation maintains a defined benefit pension plan and a defined contribution pension plan that provide retirement benefits for its employees.

Under the defined contribution pension plan, the Corporation's obligations are limited to contributions made for current service. When made, these contributions are charged to income.

For the defined benefit plan:

(i) For the purpose of calculating the expected return on plan assets, those assets are valued at market value, which approximates fair value.

(ii) Pension obligations are determined by an independent actuary using the projected benefit method prorated on service and management's best estimate assumptions of expected plan investment performance, salary escalation, age at retirement, mortality of members and future pension indexing, based upon the consumer price index.

(iii) The discount rate used to determine the accrued benefit obligation was determined by reference to market interest rates at the measurement date of high-quality debt instruments with cash flows that match the timing and amount of expected benefit payments.

(iv) Past service costs from plan amendments and the transitional asset are amortized on a straight-line basis over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

(v) The excess of the net actuarial gain (loss) over 10% of the greater of the accrued benefit obligation and the fair value of the plan assets is amortized over a period of time which is a blending of the expected average remaining service lifetime of the active members and the future life expectancy of the pensioners.

The Corporation also provides a defined benefit service recognition plan for management employees. The cost of the plan is determined using the projected benefit method prorated on service.

Measurement uncertainty

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from these estimates and changes in estimates are recorded in the accounting period in which they are determined. The most significant estimation process is related to the actuarial determination of the provision for unpaid claims (note 8).

3. Cash and Cash Equivalents

Cash and cash equivalents include $27,385,000 (2003 - $35,738,000) in treasury bills earning an average effective interest rate of 2.5% (2003 – 2.7%).

4. Accounts Receivable

Accounts receivable is comprised of the following:

	(thousands of $)	
	2004	**2003**
Financed premiums receivable	$ 31,228	$ 27,519
Due from brokers	26,170	25,232
Facility Association receivable	4,915	4,512
Due from reinsurers	2,196	2,848
Accrued investment income	5,439	2,639
Due from self-insured retentions	1,157	1,275
Amounts recoverable on claims paid	1,278	1,043
Computer purchase receivable	598	587
Investment receivable	-	536
Prepaid expenses	621	533
Other	468	642
Total accounts receivable	$ 74,070	$ 67,366

5. Investments

The components of the Corporation's investments are as follows:

(thousands of $)

	2004		2003	
	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Short-term investments	$ 6,932	$ 6,932	$ 11,992	$ 11,992
Bonds and debentures	271,518	275,744	218,481	223,092
Pooled equity fund	10,193	10,459	11,677	11,613
Canadian common shares	28,386	41,827	33,257	45,929
U.S. common shares	10,323	12,824	12,075	14,141
Preferred shares	290	297	343	344
Mortgages	14,607	15,289	14,430	14,947
	342,249	363,372	302,255	322,058
Investments accounted for on the equity basis	4,018	4,018	3,365	3,365
Total investments	$ 346,267	$ 367,390	$ 305,620	$ 325,423

Details of significant terms and conditions, exposures to interest rate and credit risks of investments are as follows:

(i) Short-term investments:

Short-term investments are comprised of treasury bills with a maturity of less than one year but greater than 90 days from the date of acquisition. These investments have an average effective interest rate of 2.5% (2003 – 2.9%) and an average remaining term to maturity of 75 days (2003 – 158 days). The Corporation's investment policy states that investments must meet minimum investment standards of R-1, as rated by a recognized credit rating service.

Holdings for any one issuer, other than the Government of Canada or a Canadian province, are limited to 10% of the market value of the combined short-term investment and bond portfolios.

Carrying amounts for short-term investments approximate fair value due to the immediate or short-term nature of these financial instruments.

(ii) Bonds and debentures:

The Corporation's investment policy states that the minimum quality standard for purchase of bonds and debentures is BBB, as rated by a recognized credit rating service.

The Corporation's investment policy limits its holdings for any one issuer, other than the Government of Canada or a Canadian province, to 10% of the market value of the combined bond and short-term investment portfolios. The holdings for any one province are limited to 20% of the market value of the bond portfolio.

The carrying value and average effective interest rates are shown in the following chart by contractual maturity. Actual maturity may differ from contractual maturity because certain borrowers have the right to call or prepay obligations with or without call or prepayment penalties. The carrying values are essentially the same as the principal value and therefore the average effective rates are not materially different from the coupon rates. Interest is generally receivable on a semi-annual basis.

(thousands of $)

Term to maturity (years)	2004 Carrying Value	2004 Average Effective Rates	2003 Carrying Value	2003 Average Effective Rates
Government of Canada:				
One or less	$ 50	6.5%	$ 52	6.5%
After one through five	118,767	4.2%	81,604	4.5%
After five	36,627	4.7%	39,516	5.5%
Canadian provincial & municipal:				
After one through five	27,670	5.2%	19,538	5.9%
After five	23,412	5.6%	17,141	5.8%
Canadian corporate:				
One or less	-	-	510	5.3%
After one through five	44,603	4.9%	43,309	5.4%
After five	20,389	5.3%	16,811	6.3%
Total bonds & debentures	$ 271,518		$ 218,481	

For bonds and debentures, the fair values are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(iii) Pooled equity fund:

The Corporation owns units in a non-North American pooled equity fund that has no fixed interest rate. Its returns are based on the success of the fund manager.

The fair value of the pooled equity fund is considered to approximate the quoted market values of the underlying investments, based on the latest bid prices.

(iv) Common shares:

Common shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 1.7% (2003 – 1.8%).

The Corporation's investment policy limits its investment concentration in any one investee or related group of investees to 10% of the market value of the Corporation's common shares. As well, no one holding may represent more than 10% of the voting shares of any corporation.

The fair value of common shares are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(v) Preferred shares:

Preferred shares have no fixed maturity dates and are generally not exposed to interest rate risk. Dividends are generally declared on an annual basis. The average effective rate is 4.3% (2003 – 4.6%).

The Corporation's investment policy limits its investment in preferred shares to issues rated Pfd-2 or higher.

The fair value of preferred shares are considered to approximate quoted market values on recognized stock exchanges, based on the latest bid prices.

(vi) Mortgages:

The mortgage portfolio consists entirely of Canadian commercial mortgages with average effective interest rates of 7.0% (2003 – 7.0%) with an average maturity of 3.7 years (2003 – 4.2 years). Principal and interest is receivable on a monthly basis.

The Corporation's investment policy limits the maximum aggregate amount of mortgage loans to 20 per cent of the total mortgage portfolio to any one borrower.

For mortgages, the fair value is calculated by discounting scheduled cash flows through to the estimated maturity of the mortgage using current interest rates.

(vii) Investments accounted for on the equity basis:

The Corporation has 9% ownership in a crop hail insurance business and indirectly controls an additional 27% of the business through preferred share ownership in other crop hail insurance companies.

Through a subsidiary, the Corporation has 25% ownership in three companies consisting of Charlie Cooke Insurance Agency Ltd., Atlantic Adjusting & Appraisals Ltd. and Maritime Finance & Acceptance Corporation.

The fair value of investments accounted for on the equity basis is considered to approximate book value.

6. Net Investment in Capital Lease

The Corporation, as lessor, has a 37% interest in a lease agreement with Saskatchewan Property Management Corporation, a related party, for a term of 30 years (expiring April 2011) on property in Prince Albert, Saskatchewan. The lease transfers substantially all benefits and risks associated with the ownership of the property to the lessee.

The Corporation's net investment in the capital lease includes the following:

	(thousands of $)	
	2004	**2003**
Total minimum lease payments receivable ($583,000 per year)	$ 3,644	$ 4,227
Unearned income	(944)	(1,231)
Net investment in capital lease	$ 2,700	$ 2,996

The fair value of the net investment in the capital lease is $3,194,000 (2003 - $3,717,000). The fair value is calculated by discounting scheduled cash flows through to the estimated expiration of the lease using current interest rates.

7. Property, Plant and Equipment

The components of the Corporation's investment in property, plant and equipment, as well as the related accumulated amortization, are as follows:

(thousands of $)

	2004			2003
	Cost	Accumulated Amortization	Net Book Value	Net Book Value
Land	$ 972	$ -	$ 972	$ 972
Building	19,795	11,986	7,809	7,464
Computer hardware, system costs and other equipment	16,335	15,804	531	1,531
Total	$ 37,102	$ 27,790	$ 9,312	$ 9,967

Amortization for the year is $1,591,000 (2003 - $1,747,000).

8. Provision for Unpaid Claims

(i) Nature of unpaid claims:

The establishment of the provision for unpaid claims is based on known facts and interpretation of circumstances and is therefore a complex process influenced by a large variety of factors. Measurement of the provision is uncertain due to claims that are not reported to the Corporation at the year-end date and therefore estimates are made as to the value of these claims. As well, uncertainty exists for reported claims that have not been settled, as all the necessary information may not be available at the date of the statement of financial position.

Factors used to estimate the provision include: the Corporation's experience with similar cases, historical trends involving claim payments, the characteristics of the class of business, claim severity and claim frequency such as those caused by natural disasters, the effect of inflation on future claims, court decisions and economic conditions. Time is also a critical factor in determining the provision, since the longer it takes to settle and pay a claim the more variable the ultimate settlement amount will be. Accordingly, short-tail claims such as property claims tend to be more reasonably predictable than long-tail claims such as liability claims.

As a result, the establishment of the provision for unpaid claims relies on a number of factors and on the judgment and opinions of a large number of individuals, which necessarily involves risk that the actual results may differ materially from the estimates.

The Corporation settles some long-term disability claims by purchasing structured settlements from various financial institutions. As part of the settlement, the Corporation provides a financial guarantee to claimants in the event the institutions default on scheduled payments. The net present value of these expected payments as at Dec. 31, 2004 total $48,824,000 (2003 - $47,480,000).

Included in the gross provision for unpaid claims is a provision for unpaid reinsurance assumed claims of $10,962,000 (2003 - $10,477,000). The Corporation discontinued its practice of underwriting reinsurance assumed business in 1985, but remains financially responsible for claims run-off on assumed contracts.

Changes in the estimate for the provision for unpaid claims are as follows:

(thousands of $)

	2004	2003
Net unpaid claims - beginning of year	$ 186,346	$ 175,688
Provision for self-insured retention	(1,275)	(1,285)
Payments made during the year relating to prior year claims	(56,244)	(51,614)
Excess relating to prior year estimated unpaid claims	(916)	(7,461)
Net unpaid for claims of prior years	127,911	115,328
Provision for claims occurring in the current year	76,735	71,018
Net unpaid claims - end of year	$ 204,646	$ 186,346

The fair value of the provision for unpaid claims and unpaid claims recoverable from reinsurers has been omitted because it is not practicable to determine fair value with sufficient reliability.

(ii) Type of unpaid claims:

The provision for unpaid claims is summarized by line of business as follows:

(thousands of $)

	2004			2003		
	Gross	Reinsurance Recoverable	Net	Gross	Reinsurance Recoverable	Net
Automobile	$ 142,771	$ 24,859	$ 117,912	$ 129,065	$ 19,115	$ 109,950
Property	33,555	1,034	32,521	34,355	2,598	31,757
Liability	45,272	2,021	43,251	37,231	3,069	34,162
Assumed	10,962	-	10,962	10,477	-	10,477
Total	$ 232,560	$ 27,914	$ 204,646	$ 211,128	$ 24,782	$ 186,346

9. Equity Advances

The Corporation does not have share capital. However, the Corporation has received equity advances from its parent, CIC, to form its equity capitalization. The advances reflect an equity investment in the Corporation by CIC.

10. Underwriting Policy and Reinsurance Ceded

The Corporation seeks to reduce losses that may arise from catastrophes or other events that cause unfavourable underwriting results by reinsuring certain levels of risk with other insurers. The policy of underwriting and reinsuring contracts of insurance, in the main, limits the liability of the Corporation to a maximum amount on any one loss as follows:

(thousands of $)

	2004	2003
Dwelling and farm property	$ 400	$ 400
Unlicensed vehicles	500	500
Commercial property	1,000	1,000
Automobile and general liability	1,000	1,000
(subject to filling an annual aggregate deductible of)	500	500
Property catastrophe (health care)	7,500	7,500
Property catastrophe (..on-health care)	8,500	7,500

The Corporation evaluates and monitors the financial condition of its reinsurers to minimize its exposure to significant losses from reinsurer insolvency. The following table sets out the amount by which reinsurance ceded has reduced the premiums earned, claims incurred, commissions, premium taxes and administrative expenses:

(thousands of $)

	2004	2003
Premiums earned	$ 22,571	$ 21,773
Claims incurred	14,118	4,054
Commissions and premium taxes	2,880	2,139
Administrative expenses	889	932

11. Claim Development Recovery

The Corporation has purchased adverse claim development reinsurance for pre-April 30, 2001 claims of Coachman Insurance Company, a wholly owned subsidiary. The reinsurance has a $3.0 million deductible and provides coverage up to $8.0 million. In the current year, development on prior year claims has resulted in a reduction to claims incurred and an increase to the related receivable in the amount of $348,000 (2003 - $1,945,000). The total receivable at Dec. 31, 2004 is $3,394,000 (2003 - $3,046,000).

12. Investment Earnings

The components of investment earnings are as follows:

	(thousands of $)	
	2004	**2003**
Income from interest	$ 12,219	$ 11,398
Realized gain on sale of investments	12,443	5,344
Income from premium financing	2,133	1,722
Income from dividends	869	1,267
Income from capital lease	287	315
Income from investments accounted for on the equity basis	784	255
Investment write downs	(1,385)	(741)
Total investment earnings	$ 27,350	$ 19,560

Investment write downs by category:

	(thousands of $)	
	2004	**2003**
United States common shares	$ (158)	$ (266)
Canadian common shares	(1,227)	(262)
Bonds and debentures	-	(213)
Total investment write downs	$ (1,385)	$ (741)

13. Income Taxes

The Corporation's provision for income taxes is as follows:

	(thousands of $)	
	2004	**2003**
Current	$ 1,116	$ 143
Future	102	478
Total income taxes	$ 1,218	$ 621

Income tax expense differs from the amount that would be computed by applying the federal and provincial statutory income tax rates to income before income taxes. The reasons for the differences are as follows:

	(thousands of $)	
	2004	**2003**
Net income before income taxes from taxable subsidiaries	$ 4,342	$ 2,078
Combined federal and provincial tax rate	37.62%	40.12%
Computed tax expense based on combined rate	$ 1,633	$ 834
Increase (decrease) resulting from:		
Investment earnings not subject to taxation	(85)	(48)
Adjustment to future tax assets and liabilities for enacted changes in tax laws and rates	-	1,040
Valuation allowance	(283)	(1,218)
Other	(47)	13
Total income taxes	$ 1,218	$ 621

The components of future income tax balances are as follows:

	(thousands of $)	
	2004	**2003**
Future income tax assets		
Tax loss carryforward	$ -	$ 7,970
Provision for unpaid claims	9,404	1,522
Unearned premiums	3,889	-
Other	35	46
	13,328	9,538
less: valuation allowance	(8,075)	(8,358)
Total future income tax assets	5,253	1,180
Future income tax liabilities		
Bonds and debentures	1,103	604
Unpaid claims recoverable from reinsurers	3,482	403
Reinsurers' share of unearned premiums	597	-
Total future income tax liabilities	5,182	1,007
Net future income taxes	$ 71	$ 173

14. Change in Non-Cash Operating Items

The change in non-cash operating items is comprised of the following:

	(thousands of $)	
	2004	**2003**
Accounts receivable	$ (6,704)	$ 3,125
Deferred policy acquisition costs	(2,517)	(4,644)
Reinsurers' share of unearned premiums	(257)	(1,209)
Unpaid claims recoverable from reinsurers	(3,132)	5,685
Accounts payable and accrued charges	1,441	1,298
Premium taxes payable	795	1,580
Amounts due to reinsurers	(109)	121
Unearned reinsurance commissions	122	164
Unearned premiums	10,022	10,744
Provision for unpaid claims	21,432	4,973
	$ 21,093	$ 21,837

15. Employee Future Benefits

(i) Defined benefit pension plan:

The Corporation has a defined benefit pension plan for certain of its employees that has been closed to new membership since 1980. Current service costs of this plan are charged to earnings on the basis of actuarial valuations, the most recent valuation being as of Dec. 31, 2002. The next valuation will be as of Dec. 31, 2005. The plan and the valuation results of the plan includes both employees of the Corporation and the Saskatchewan Auto Fund.

The actuarial valuation includes a provision for uncommitted and ad hoc benefit increases, and is measured using management's best estimates based on assumptions that reflect the most probable set of economic circumstances and planned courses of action. The estimate, therefore, involves risks that the actual amount may differ materially from the estimate. Results from the latest valuation as at Dec. 31, 2002, projected to Dec. 31, 2004, and the major assumptions used in the valuation, are as follows:

Economic assumptions:

	2004	**2003**
Discount rate - beginning of period	6.10%	6.20%
Discount rate - end of period	5.60%	6.10%
Expected return on plan assets	6.75%	6.75%
Inflation rate	3.00%	3.00%
Expected salary increase	4.00%	4.00%
Post-retirement index	50% of CPI	50% of CPI
Remaining service life of active members in years (EARSL)	5	5

Information about the Corporation's defined benefit plan is as follows:

	(thousands of $)	
	2004	**2003**
Accrued benefit obligation		
Accrued benefit obligation, beginning of year	$ 49,777	$ 49,944
Current service cost	247	304
Interest cost	2,738	3,003
Benefits paid	(10,216)	(3,536)
Actuarial loss on accrued benefit obligation	2,175	62
Accrued benefit obligation, end of year	$ 44,721	$ 49,777
Plan assets		
Fair value of plan assets, beginning of year	$ 50,658	$ 49,293
Actual return on plan assets	3,859	4,804
Employee contributions	76	97
Benefits paid	(10,216)	(3,536)
Fair value of plan assets, end of year	$ 44,377	$ 50,658
Funded status - plan surplus (deficit)	$ (344)	$ 881
Unamortized transitional asset	(3,854)	(4,597)
Unamortized net actuarial losses	3,544	2,081
Accrued pension liability	$ (654)	$ (1,635)
Accrued pension liability - SGI	$ (210)	$ (529)
Accrued pension liability - Saskatchewan Auto Fund	$ (444)	$ (1,106)

The asset allocation of the defined benefit pension plan assets is as follows:

		Per cent of Plan Assets at Dec. 31	
Asset Category	Target Range	**2004**	**2003**
Short-term investments	3 - 20%	3%	3%
Bonds and debentures	40 - 70%	55%	55%
Canadian equities	10 - 30%	17%	17%
U.S. equities	Total foreign 18 - 30%	14%	13%
Non-North American equities		11%	12%

The defined benefit plan pension income is as follows:

	(thousands of $)	
	2004	2003
Current service cost - defined benefit plan	$ 171	$ 207
Interest cost	2,738	3,003
Expected return on pension plan assets	(3,077)	(3,211)
Amortization of net transitional asset	(743)	(743)
Amortization of actuarial gains	(70)	(71)
Defined benefit plan pension income	$ (981)	$ (815)
Defined benefit plan pension income - SGI	$ (314)	$ (264)
Defined benefit plan pension income - Saskatchewan Auto Fund	$ (667)	$ (551)

(ii) Defined contribution pension plan:

The Corporation also has employees who are members of the Capital Pension Plan, which is a defined contribution pension plan. The Corporation's financial obligation is limited to matching employee contributions of 5.5% to the plan.

The defined contribution plan pension expense is as follows:

	(thousands of $)	
	2004	2003
Current service cost - defined contribution plan	$ 3,825	$ 3,709
Defined contribution plan pension expense - SGI	$ 1,226	$ 1,199
Defined contribution plan pension expense - Saskatchewan Auto Fund	$ 2,599	$ 2,510

(iii) Defined benefit service recognition plan:

Significant actuarial assumptions adopted in measuring the Corporation's accrued benefit obligation at Dec. 31 are:

	(thousands of $)	
	2004	2003
Discount rate	5.1%	5.6%
Expected salary increase	4.0%	4.0%
EARSL	10	10

Information about the defined benefit service recognition plan is as follows:

	(thousands of $) 2004	2003
Benefit expense	$ 384	$ 162
Accrued benefit obligation	$ 3,255	$ 3,242
Unamortized past service costs, net actuarial losses and transitional asset	(824)	(766)
Accrued benefit liability	$ 2,431	$ 2,476
Accrued benefit liability - SGI	$ 823	$ 862
Accrued benefit liability - Saskatchewan Auto Fund	$ 1,608	$ 1,614

16. Related Party Transactions

Included in these financial statements are transactions with various Saskatchewan Crown corporations, departments, agencies, boards and commissions related to the Corporation by virtue of common control by the Government of Saskatchewan and non-Crown corporations and enterprises subject to joint control and significant influence by the Government of Saskatchewan (collectively referred to as "related parties").

Routine operating transactions with related parties are settled at prevailing market prices under normal trade terms. Transactions and amounts outstanding at year end are as follows:

	(thousands of $) 2004	2003
Accounts receivable	$ 378	$ 336
Deferred policy acquisition costs	6,126	5,675
Investments	4,194	3,628
Accounts payable and accrued charges	58	73
Dividends payable	5,932	5,664
Premium taxes payable	11,988	10,993
Provision for unpaid claims	1,359	1,363
Unearned premiums	1,743	1,490
Premiums written	4,559	3,875
Premiums earned	4,313	3,666
Claims incurred	2,032	1,276
Premium taxes	11,537	10,254
Administrative expenses	1,765	1,830
Investment earnings	253	201

The Corporation acts as administrator of the Saskatchewan Auto Fund. Administrative and claim adjustment expenses incurred by the Corporation are allocated to the Corporation and the Saskatchewan Auto Fund directly or on the basis of specific distributions. Amounts incurred by the Corporation and charged to the Saskatchewan Auto Fund were $73,303,000 (2003 - $75,678,000) and accounts payable are $1,764,000 (2003 - $2,541,000).

Effective Jan. 1, 2004, the Corporation acquired the remaining shares of its subsidiary, SCISL, from the Saskatchewan Auto Fund and Crown Investments Corporation of Saskatchewan for cash consideration of $2,340,000. The difference of $1,049,000 between this cash consideration and the carrying value of $1,291,000 is an adjustment to retained earnings.

The Corporation has direct premiums that are brokered through Charlie Cooke Insurance Agency Ltd., pays claim adjusting fees to Atlantic Adjusting & Appraisals Ltd. and has premiums financed for policyholders by Maritime Finance & Acceptance Corporation. These companies are affiliated with the minority shareholder of ICPEI, who is a member of ICPEI's senior management. The policies written and the claim adjusting expenses paid are routine operating transactions in the normal course of business. Transactions and amounts outstanding at year end are as follows:

	(thousands of $)	
Category	2004	2003
Accounts receivable	$ 497	$ 644
Accounts payable	50	60
Premiums written	8,748	9,848
Commissions paid	1,213	1,328
Claims incurred	435	426
Premiums financed	3,444	3,885

Other related party transactions are described separately in the notes.

17. Fair Values

The fair value of financial assets and liabilities, other than investments (note 5), net investment in capital lease (note 6), unpaid claims and unpaid claims recoverable from reinsurers (note 8) approximate fair value due to their immediate or short-term nature.

18. Facility Association

Through its subsidiaries, the Corporation is a participant in various automobile risk sharing pools in Ontario and Prince Edward Island, whereby companies in the industry share resources to provide insurance coverage to high risk insureds.

Facility Association transactions recorded in the Corporation's financial results are as follows:

	(thousands of $)	
	2004	2003
Gross premiums written	$ 2,340	$ 4,341
Net premiums earned	$ 3,048	$ 3,231
Claims incurred	1,236	3,594
Commissions	126	253
Premium taxes	100	103
Administrative expenses	406	472
Total claims and expenses	1,868	4,422
Underwriting profit (loss)	1,180	(1,191)
Investment earnings	182	128
Net income (loss)	$1,362	$(1,063)
Facility Association receivable	$4,915	$4,512
Unearned premiums	982	1,687
Provision for unpaid claims	4,187	4,512

19. Segmented Information

The Corporation's operating segments are managed as separate legal entities, with the performance of each entity reported separately to the Corporation's Board.

Each company follows the same accounting policies as outlined in note 2. The Corporation accounts for any inter-company transactions as if they were to third parties, that is, at current market prices.

The Corporation's operating segments sell property and casualty insurance in various jurisdictions as follows:

(i) SGI CANADA in Saskatchewan;

(ii) SGI CANADA Insurance Services Ltd. (SCISL) in Manitoba;

(iii) Coachman Insurance Company (Coachman) in Ontario; and

(iv) The Insurance Company of Prince Edward Island (ICPEI) in Prince Edward Island and New Brunswick.

(thousands of $)

2004	SGI CANADA	SCISL	Coachman	ICPEI	Inter-company Eliminations	Total
Gross premiums written	$ 250,299	$ 14,763	$ 32,475	$ 8,920	$ (5,670)	$ 300,787
Net premiums earned	$ 220,279	$ 10,493	$ 27,866	$ 8,849	$ -	$ 267,487
Claims incurred	121,943	5,612	24,542	5,533	-	157,630
Other expenses	80,580	4,339	7,103	1,961		93,983
Underwriting profit (loss)	17,756	542	(3,779)	1,355	-	15,874
Investment earnings	21,127	1,186	4,333	704	-	27,350
Income before taxes and non-controlling interest	38,883	1,728	554	2,059	-	43,224
Income taxes	-	580	(128)	766	-	1,218
Non-controlling interest	-	-	-	-	322	322
Net income	$ 38,883	$ 1,148	$ 682	$ 1,293	$ (322)	$ 41,684
Total assets	$ 386,796	$ 28,919	$ 111,257	$ 25,483	$ (18,356)	$ 534,099
Shareholder's equity	$ 81,390	$ 8,482	$ 11,150	$ 6,258	$ (1,236)	$ 106,044

(thousands of $)

2003	SGI CANADA	SCISL	Coachman	ICPEI	Inter-company Eliminations	Total
Gross premiums written	$ 229,883	$ 13,609	$ 24,294	$ 9,848	$ (5,232)	$ 272,402
Net premiums earned	$ 194,591	$ 9,124	$ 28,432	$ 8,873	$ -	$ 241,020
Claims incurred	113,465	5,555	24,979	6,193	-	150,192
Other expenses	74,852	3,594	7,598	2,237	(4)	88,277
Underwriting profit (loss)	6,274	(25)	(4,145)	443	4	2,551
Investment earnings	13,759	698	4,466	664	(27)	19,560
Income before taxes and non-controlling interest	20,033	673	321	1,107	(23)	22,111
Income taxes	-	198	-	423	-	621
Non-controlling interest	-	-	-	-	288	288
Net income	$ 20,033	$ 475	$ 321	$ 684	$ (311)	$ 21,202
Total assets	$ 359,592	$ 20,147	$ 87,694	$ 22,288	$ (6,339)	$ 483,382
Shareholder's equity	$ 71,943	$ 7,263	$ 10,468	$ 5,035	$ (2,205)	$ 92,504

20. Commitments

The Corporation has a telecommunications contract with a related party for $792,000 a year for services from 2005 to 2009. Commitments related to construction on the Corporation's head office total $1,094,000. The Corporation's subsidiary, Coachman, has a lease for its office premises expiring Dec. 31, 2008 at an annual rent of $180,000.

21. Comparative Financial Information

For comparative purposes, certain 2003 balances have been reclassified to conform to 2004 financial statement presentation.

In Memoriam

Connie Fiechter, Clerk 3, Personal Lines - Home, was known for being very personable and having a great sense of humour. Nothing was ever routine with Connie around, and she was admired for her ability to make any task somewhat lively. Connie worked for SGI for 25 years. She passed away following a long illness on Dec. 17, 2004 at the age of 58.